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Greece Update

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Summary

The conservative New Democracy party took office in March 2004 for the first time in many years and performed well in the June 2004 elections for the European Parliament. The choice of a new president in February 2005 is the next big political contest. Meanwhile, the government must deal with high budget deficits and debt. Its foreign policy focuses on the European Union, the rapprochement with Turkey, efforts to reunify Cyprus, and good relations with the United States. Greece has assisted with the war on terrorism, but is not a member of the coalition in Iraq. This report will be updated if developments warrant. See also CRS Issue Brief IB89140, *Cyprus: Status of U.N. Negotiations*, updated regularly, and CRS Report RS21833, *Greece: Threat of Terrorism and Security at the Olympics*, July 9, 2004.

Government and Politics

The conservative New Democracy party (ND) won the March 7, 2004, parliamentary elections in Greece with 45.37% of the vote to 40.55% for its rival Pan-Hellenic Socialist Movement (PASOK), thereby gaining a majority of 165 seats in parliament to 117 for PASOK out of 300. The Communist Party (KKE) garnered 5.89% of the vote and 12 seats, while the Coalition of the Left and Progress (Synaspismos) took 3.26% and 6 seats. The rightist Popular Orthodox Rally (LAOS) and the leftist Democratic Social Movement (DIKKI) failed to win 3% of the vote required to enter parliament.

Constantine (Costas) Karamanlis, the 47-year-old nephew and namesake of the founder of ND who had served as prime minister (1955-1963, 1974-1980) and president (1980-1985, 1990-1995), became Prime Minister. The younger Karamanlis entered parliament in 1989, has been the leader of ND for seven years, but has never previously held a ministerial portfolio. As part of his education, he earned graduate degrees from the Fletcher School of Law and Diplomacy of Tufts University in Massachusetts.

Karamanlis appointed a relatively large cabinet of 47. The 75-year-old Petros Molyviatis is Foreign Minister and the younger, academic Yiannis Valinakis is Alternate (or Deputy) Foreign Minister responsible for European affairs. Valinakis is seen as a possible successor for Molyviatis as is Mayor of Athens Dora Bakoyianni. The experienced Defense Minister is Spilios Spiliotopoulos, while the Public Order Minister,

who was in charge of security for the summer 2004 Olympics, is George Voulgarakis, who is younger in age. There is one woman minister, although Karamanlis named Anna Psaroudha-Benaki to be Greece's first woman Speaker of Parliament.

In the June 2004 elections for the European Parliament, ND almost doubled its margin of victory over PASOK, with 43.03% to 34.03%; with the Communists taking 9.47%; the Coalition of the Left, 4.15%; and the Popular Orthodox Party (LAOS), 4.11%.

The parties are now jockeying for position in anticipation of the February 2005 election by parliament of a replacement for President Costas Stephanopoulos, who has held the largely ceremonial post since 1995. ND lacks the votes to select a president by itself.¹ If the parties cannot reach a consensus on a choice, early elections for parliament are possible. Polls indicate that ND has increased its popularity and might gain seats in such elections. Yet, the parties do not appear eager for another contest so soon after the last. Karamanlis may prefer to focus on implementing his government's program, while PASOK leader George Papandreou is attempting to rebuild his party. Therefore, a consensus agreement on a candidate is likely..

Economy

Greece has a mixed capitalist economy, with the public sector accounting for half of the gross domestic product (GDP). In 2003, per capita GDP was estimated at \$20,000, or about 70% of the leading euro-zone economies, and the GDP growth rate was 4.7%.² Greece has experienced steady economic growth of an annual average of 4% since 1997, exceeding the average EU growth rate by more than 1 percent due to reforms, EU aid, and the August 2004 summer Olympics, which stimulated investment.

On taking office, the ND government faced the multiple challenges of a large public debt, large budget deficit, and high unemployment. It then was confronted by ballooning costs of the Olympics to more than U.S.\$10 billion and discovered that the fiscal situation was even worse than it had expected. In September, the government revised data upward: the deficit to 4.6% of GDP for 2003 and to 5.3% of GDP for 2004, and debt to 112% of GDP for 2004. The EU's Economic and Monetary Union (EMU/eurozone) criteria call for a deficit of not more than 3% of GDP and debt of not more than 60% GDP. EU finance ministers have asked the Greek government to submit a plan by November for reaching the 3% deficit level. The EU Commission expressed concern that the prior Greek government had manipulated economic data to gain entry into the EMU in 2001 and launched an audit.

¹ A candidate must win two-thirds of the votes (200) in parliament on the first and second ballots or three-fifths of the votes (180) on a third ballot to be elected president. If parliament fails to elect a president, it is dissolved and an early election is held. A new parliament then elects a president by three-fifths of the votes on the first ballot, or a majority vote on the second ballot.

² CIA, *The World Factbook* 2004.

The government has pledged to bring the deficit down to 2.8% of GDP and debt down to 109.5% of GDP in 2005, but some analysts doubt that this is feasible.³ The government hopes to reach its targets by cutting defense spending, accelerating privatization of state enterprises, reforming taxes, and combating tax evasion. It also plans to support small and medium-sized enterprises, technologies and innovation, and reduce corporate taxes to attract investment.

Terrorism

Greek authorities contend that, since 2002, they have effectively dismantled two domestic terrorist groups, the Revolutionary Organization 17 November (17N) and Revolutionary Popular Struggle (ELA). Neither has been active for several years. U.S. officials, however, have not endorsed the Greeks' conclusion regarding 17N and ELA, citing Greek officials' own references to continuing investigations. There also are many small anarchist groups operating mainly in the Athens area. The State Department cites anarchist attacks as evidence of "the lingering nature of left-wing terrorism in Greece."⁴

In June, ND oversaw parliament's delayed passage of legislation to implement a common European Union counter-terrorism policy, including adoption of an EU-wide arrest warrant.⁵

Foreign Policy

As an EU member, Greece remains oriented toward Brussels and takes many of its foreign policy cues from the main EU players, notably France and Germany. It also is member of NATO.

Cyprus.⁶ In November 2002, U.N. Secretary General Kofi Annan offered a draft settlement plan to unite Greek Cypriots and Turkish Cypriots in a loosely federated United Republic of Cyprus. After more negotiations and revisions, Annan had hoped that the process would culminate in four-party talks among Greece, Turkey, Greek Cypriots, and Turkish Cypriots in Switzerland at the end of March 2004. Although Karamanlis traveled to Switzerland to show his "cooperation," he did not participate in four-party talks. Instead, Annan and his team consulted all four leaders before finalizing the plan on March 31. Karamanlis then appeared to hesitate about taking a position before the April 24 referenda on the Annan plan on Cyprus. Reportedly under pressure from the U.N., EU, and the United States, all of which favored the plan, Karamanlis made a cautious statement on April 15, concluding that the plan had more positive points than "difficulties." He said that it was up to the Cypriot people to decide and that Greece would support their decision. Aside from his stated concerns about the substance of the

³ Kerin Hope and George Parker, "Greece Vows to Halve Deficit Amid Threats from Commission," *Financial Times*, September 30, 2004.

⁴ U.S. State Department, *Patterns of Global Terrorism 2003*, released April 29, 2004.

⁵ For more on EU actions, see CRS Report RL31509, *Europe and Counterterrorism: Strengthening Police and Judicial Cooperation*, October 15, 2004, by Kristin Archick.

⁶ For more background, see CRS Issue Brief IB89140, *Cyprus: Status of U.N. Negotiations*, updated regularly, by Carol Migdalovitz.

plan, Karamanlis may have felt constrained by (Greek) Cypriot President Tassos Papadopoulos's vociferous opposition to the plan, by polls showing that Greek Cypriots overwhelmingly agreed with their president, by opposition from Greek nationalists within and outside of ND, and by political calculations regarding the June European Parliament elections. Greek Cypriots overwhelmingly rejected the Annan plan, while Turkish Cypriots accepted it. Karamanlis has since said that reunification of Cyprus remains Greece's objective. Foreign Minister Molyviatis has said that Athens fully supports Papadopoulos's request for changes in the Annan plan and for greater EU involvement in the settlement process.

Turkey. Prime Minister Karamanlis has vowed to continue the rapprochement with Turkey begun in 1999. Before taking office, Karamanlis had forged a personal relationship with Turkish Prime Minister Recep Tayyip Erdogan as fellow members of the European People's Party (EPP), a grouping of conservative European political parties. Karamanlis has characterized their relationship as one of "mutual trust."⁷ Karamanlis is promoting Turkey's accession to the EU. Greece believes that EU membership will ensure that Turkey is a more stable democracy in which soldiers remain in the barracks and do not threaten Greece. Karamanlis's controversial commitment to sustaining good relations with Turkey despite developments on Cyprus reverses traditional Greek policy toward Turkey, which had posited a Cyprus settlement as a precondition for rapprochement.

Greek-Turkish exploratory talks on Aegean sovereignty disputes over air space, territorial seas, continental shelves, and related matters, and bilateral committees on 'low-level' issues continue. Greece does not appear to be in a rush to take the Aegean dispute to the International Court of Justice (ICJ) by December, an idea proposed when the EU summit reaffirmed Turkey's candidacy for membership in Helsinki in 1999. Foreign Minister Molyviatis has said that the exploratory talks should continue "for as long as it takes."⁸ The two sides recognize that rapprochement has diminished their mutual threat perceptions, and both are cutting defense spending. They also share interests in boosting bilateral trade, which stands at \$1.2 billion annually, and in combating terrorism, illegal immigration, and other matters.

"Macedonia" Dispute.⁹ The former Yugoslav republic of Macedonia declared its independence in 1991. Its territory covers 39% of the historic region of Macedonia; the remaining 51% is in Greece and 9% is in Bulgaria. "Macedonia" asserts its right to use and be recognized by its constitutional name, the Republic of Macedonia. Greece objects, claiming that the name usurps Greece's heritage and conveys irredentist ambitions against the region of northern Greece, also called "Macedonia," which borders the former Yugoslav republic. In the early 1990s, the name issue inflamed Greek nationalism and public opinion. The Republic of Macedonia entered the U.N. in 1992

⁷ Anthee Carassava, "10 Questions for Kostas Karamanlis," *Time Europe*, March 22, 2004.

⁸ Interview with Angeliki Spanou, *Tipos Tis Kiriakis*, October 17, 2004, FBIS Document GMP20041018000031.

⁹ For more background, see CRS Report RL32172, *The Former Yugoslav Republic of Macedonia (FYROM): Post-Conflict Situation and U.S. Policy*, by Julie Kim.

under the provisional name of The Former Yugoslav Republic of Macedonia (FYROM). Perceived compromises on the name issue weakened the last ND Prime Minister, Costas Mitsotakis, who was defeated in the parliamentary elections of 1993.

In 1995, Athens and Skopje signed a bilateral agreement to normalize relations, and settle all outstanding disputes except for the name. Greece also ended its trade blockade of the FYROM. Since then, officials of both governments have met with U.S. diplomat Matthew Nimetz acting as the U.N. Secretary General's personal envoy to discuss the name, but have not reached a mutually acceptable solution. In September 2004, Nimetz suggested that new governments in Athens and Skopje and other good bilateral relations may make this a good time for progress to be made.¹⁰ The Greek and FYROM foreign ministers agreed to intensify talks. Despite the lack of a resolution, Greece supports the FYROM's ambitions to join the EU and NATO, and Greek companies are the foremost investors in the FYROM. Greece envisions the FYROM in a future Europeanized, stable southeast Europe.

The Karamanlis government may not be prepared to make concessions needed for a resolution of the name issue. An expelled ND member leads the Popular Orthodox Rally (LAOS), a small, extreme nationalist party, and may exploit the issue. Other ardent nationalists remain in ND ranks, and Karamanlis probably would not want to risk alienating them over an issue that is not pressing. For its part, the Skopje government also has to contend with nationalist forces at home and may not be able to compromise. At the same time, observers believe that a resolution of the dispute is long overdue.

The trend in usage favors the FYROM, with international actors often commonly and officially using the shorthand "Macedonia" in lieu of the more cumbersome FYROM. For example, on the occasion of the death of President Trajkovski in a plane crash, the U.S. House of Representatives passed H.Res. 540, on March 11, 2004, by a vote of 411-0, expressing solidarity with the people of Macedonia and the government of Macedonia. The Republic of Macedonia is signatory to an agreement with the United States exempting U.S. personnel from extradition to the International Criminal Court.

Relations with the United States. U.S.-Greek bilateral relations are good, based on historical, political, cultural, military, economic, and personal ties. Prime Minister Karamanlis visited President Bush at the White House on May 20, and reaffirmed the strength of the bond. There are about one million Americans of Greek origin; they and their offspring form a well-organized community which advocates pro-Greek positions and close U.S.-Greek relations. The United States has a trade surplus with Greece, but accounts for only a very small share of Greece's imports. The Greek government closely consulted with U.S. agencies regarding security for the Olympics, including the National Security Council, and the Departments of State, Justice (FBI), Homeland Security, and Energy, and the CIA.

The Greek government responded to the September 11, 2001 terrorist attacks on the United States with strong political support, unimpeded U.S. and coalition use of Greek airspace, and military assets for counterterrorism. Like some other EU countries,

¹⁰ Dusan Arsovski, "UN Official Says Now 'Good Time' to Resolve FYROM-Greek Name Dispute," Skopje MTV1, September 27, 2004, FBIS Document EUP20040927000395.

however, Greece does not view the war in Iraq as part of the global war against terror and is not part of the coalition there. A U.S. Naval Support Activity is based at Souda Bay, on Crete. A U.S.-Greek agreement allows U.S. ships to visit the base for personnel leave and refueling. Aerial refueling aircraft (tankers) from Souda reportedly refueled other U.S. planes en route to the war in Iraq. Anti-war protests occurred outside the base.¹¹

Greece and the United States share interests in stability in southeastern Europe. Greece contributed a transport company to the NATO Stabilization Force in Bosnia-Herzegovina (SFOR), although its participation ended in 2003. Greece sent 400 troops to participate in NATO's Operation Essential Harvest to demilitarize rebel forces in the FYROM, and then contributed forces to NATO's Task Force Fox to provide security for civilian personnel overseeing implementation of the peace plan in the FYROM. NATO concluded this operation in 2003. Greek troops continue to serve in NATO's peacekeeping force in Kosovo (KFOR). As of June 2004, there were 127 Greek troops serving in the International Security Assistance Force (ISAF) in Afghanistan as part of the NATO mission there. This figure is down from more than 1,300 troops and support elements from the Greek Corps of Engineers and two Greek C-130 aircraft deployed during the U.S.-led Operation Enduring Freedom to oust the Taliban and Al Qaeda from Afghanistan. Until July 2003, Greece also stationed a navy frigate in the Arabian Sea. Due to the need for security forces for the Olympics, Greece advised NATO that it could not increase its military presence in Afghanistan. The United States has welcomed and encouraged the rapprochement between Greece and Turkey. Both Greece and Turkey participate in the U.S.-initiated Southeast Europe Brigade (SEEBRIG), a rapid reaction force consisting of contingents from seven regional countries.

At the same time, there is a strong strain of anti-Americanism in Greece, stemming from U.S. support for the Greek military junta that ruled from 1967-1974 and U.S. failure to prevent the Turkish invasion of/intervention in Cyprus in 1974, among other issues. Unsupported allegations of U.S. involvement in Greek internal political affairs surface regularly. Anti-American sentiment was intense during the wars in the Balkans in the 1990s, when Greeks sympathized with their traditional allies and co-religionists, the Serbs, and is strong now due to war in Iraq. It is evident in periodic mass demonstrations mobilized by Communists, anarchists, unions, antiwar activists, and anti-globalization forces, whose influence is disproportionate to their numbers in society. Greek commentators and officials carefully note that anti-Americanism is targeted against U.S. government policies and not the American people, partly because there is concern that perceptions of anti-Americanism might affect Greece's vital tourism industry. Secretary of State Powell canceled a visit to Athens to attend the closing ceremony of the Olympics in August due to other pressing business, although Greek commentators suggested that anti-American demonstrations had warned him off. He also canceled a rescheduled visit in October, seen as unnecessary after his talks with Foreign Minister Molyviatis on the sidelines of the opening of the U.N. General Assembly in September.

The Administration welcomed Greece's election in October to a non-permanent two-year seat on the U.N. Security Council.

¹¹ "Greek Defense Minister Assures No Greek Involvement in Iraqi War Operations," Athens News Agency, March 20, 2003.